

Workers Compensation Bureau

500 East Front Avenue
Bismarck, North Dakota 58504-5685

Pat Traynor
Executive Director & CEO



North Dakota Workers Compensation Bureau Statement of Investment Policy

Revised December 1998

"A Team Effort"

Office: 701-328-3800 TDD: 701-328-3786 (hearing impaired only)
Claims/Legal: 701-328-3801 Claims/Legal Fax: 701-328-3820
Policyholder Services: 701-328-3811 Policyholder Fax: 701-328-3750
Loss Prevention: 701-328-3886
Workers' Adviser Program: 701-328-3796 or 1-800-701-4932

WCB HelpLine

1-800-777-5033

Local: 701-328-3800

Questions? Call us. Report injuries immediately.

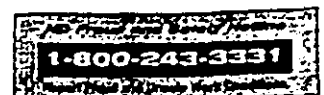


TABLE OF CONTENTS

	<u>Page</u>
1. Introduction	1
2. Purpose of this Statement	1
3. Delegation of Responsibilities	1
4. Asset Allocation Policy	2
5. Total Fund Investment Philosophy and Objectives	2

1. INTRODUCTION

The North Dakota Workers Compensation Bureau (NDWCB) is an exclusive state workers' compensation fund which exists for the mutual benefit of North Dakota employers and employees. The assets of the Bureau are utilized to pay benefits to injured workers or their survivors.

Section 65-04-01 of the North Dakota Century Code requires the Workers Compensation Bureau to establish premium rates for funding sufficiently high to provide for:

1. The payment of the expenses of administration of the Bureau,
2. The payment of compensation according to the provisions and schedules contained in this title, and
3. The maintenance by the Fund of adequate reserves and surplus to the end that it may be kept at all times in an entirely solvent condition.

2. PURPOSE OF THIS STATEMENT

The purpose of this statement is to set forth the investment goals and objectives for the NDWCB. The goals and objectives are to be used by the North Dakota State Investment Board (NDSIB) for the investment of the NDWCB assets.

3. DELEGATION OF RESPONSIBILITIES

RESPONSIBILITIES OF THE NORTH DAKOTA WORKERS COMPENSATION BUREAU AND ITS BOARD OF DIRECTORS

- The NDWCB has the responsibility for establishing the investment goals and objectives which are the guide to the investment of NDWCB's assets.
- The NDWCB shall review these investment goals and objectives, at least annually.
- The NDWCB shall develop the asset allocation plan for NDWCB's assets.
- The NDWCB shall utilize the assistance of experienced independent investment professionals in developing the asset allocation plan.

RESPONSIBILITIES OF THE NORTH DAKOTA STATE INVESTMENT BOARD

- Final authority for hiring, retaining, and releasing the investment managers shall rest with the NDSIB.
- The NDSIB is responsible to the NDWCB for carrying out the NDWCB's Investment Goals and Objectives.

- The NDSIB must maintain a separate accounting for the NDWCB under its authority.

4. ASSET ALLOCATION POLICY

The asset allocation policy developed herein is based on an evaluation of the NDWCB's ability and willingness to assume investment risk in light of NDWCB's financial goals and objectives. In recognition of these goals and objectives, coupled with a liability-sensitive asset allocation study conducted by Callan Associates in November 1998, the following asset allocation is deemed appropriate for the NDWCB. The portfolio mix shall be in accordance with the following asset allocation and periodically reviewed by the NDWCB.

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Equity	
Large Cap Equity	12%
Small Cap Equity	6%
Convertibles	12%
International Equity	8%
Fixed Income	59%
Cash Equivalents	3%
<i>Total</i>	<i>100%</i>

The operating and liquidity needs of the Bureau are generally to be met by the Cash Equivalents allocation.

Funds in excess of those required for operating and liquidity needs will be invested in large capitalization equity, small capitalization equity, international equity, convertible and fixed income securities. The objective of these assets is to obtain the maximum total return on investments consistent with safety of principal on funds in excess of those required for operating and liquidity needs.

5. TOTAL FUND INVESTMENT GOALS AND OBJECTIVES

The investment goal of the NDWCB is to supplement premiums, through various investments, to accomplish its statutory obligations as outlined in Section 1. It is expected that the assets earn at least a 4.0% real rate of return during periods longer than one market cycle.

The following investment objectives are established as of the date adopted and are in keeping with the fiduciary requirements as set forth in federal and state law and as expected by the members. The NDWCB expects to receive results from the State Investment Board that are consistent with the policies included herein. These objectives and guidelines will provide a basis for evaluating the effectiveness of the

investment program over time. It is clearly understood these objectives and standards are to be viewed over the long term and have been established after full consideration of all factors set out in the Statement of Investment Policy.

Restricted Transactions

While the State Investment board is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.
- d. No transaction shall be made which threatens the tax exempt status of the Fund.
- e. No funds shall be borrowed.
- f. No short sales or margin purchases shall be made.
- g. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- h. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document, social investing is defined as "The investment or commitment of insurance trust money for the purpose of obtaining an effect other than a maximized return consistent with Fund objectives."

For the purpose of this document, economically targeted investment is defined as "an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy."

Also for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.

- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions as required.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Exemptions to Restrictions

The NDSIB may request exemptions from the investment guidelines, in writing, to the NDWCB for its consideration for specific transactions.

Total Fund Performance Objectives

The performance objectives for the Total Fund are as follows:

Horizon	Universe	Index	Inflation
Less than one market cycle (approx. 1-3 years).	Rank in upper half of a broad universe of managers. ¹	Exceed the return of the Reference Index benchmark, net of fees. ²	
One Market cycle (approx. 3-5 years).	Rank in upper half of a broad universe of managers. ¹	Exceed the return of the Reference Index benchmark, net of fees. ²	
Over one market cycle (over 5 years).			Provide a 4.0% premium over the rate of inflation (as measured by the Consumer Price Index), annualized.

¹ As measured by a universe of managers composed as follows: 12% large cap equity, 6% small cap equity, 12% convertible, 8% international equity, 59% fixed income and 3% cash equivalent. See addendum for specific universe definition.

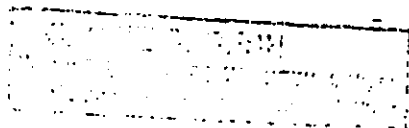
² The Reference Index benchmark is composed as follows: 12% S&P 500/6% Russell 2000/12% First Boston Convertible Index/8% EAFE Index/59% Lehman Brothers Aggregate/3% 91-day T-Bills.

J. Patrick Traynor
J. Patrick Traynor
Executive Director & CEO
North Dakota Workers Compensation Bureau

2/1/99
Date

STATE OF NORTH DAKOTA)
) ss.
COUNTY OF BURLEIGH)

On this 1st day of ~~January~~^{February}, 1999, before me personally appeared J. Patrick Traynor, Executive Director & CEO of the North Dakota Workers Compensation Bureau, known to me to be the person who is described in and who executed the within instrument and acknowledged to me that he executed the same.



Cassie Buresh
Notary Public

APPROVED BY THE WORKERS COMPENSATION BOARD OF DIRECTORS
ON DECEMBER 16, 1999.

ACCEPTED BY THE STATE INVESTMENT BOARD
ON JANUARY 22, 1999.

**WORKFORCE SAFETY & INSURANCE
AMENDMENTS TO INVESTMENT GUIDELINES STATEMENT**

Upon approval, this document will amend the existing Investment Guidelines of the Workforce Safety & Insurance (WSI) Fund as follows:

1. The asset allocation will be changed to reflect the mix adopted by the WSI Board.
2. Section 5a will be amended as follows:
 - a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
3. Section 5f will be amended as follows:
 - f. No unhedged short sales or speculative margin purchases shall be made.

I, on behalf of the Board of Directors, authorize the above amendments to the Workforce Safety & Insurance Investment Guidelines.



Bob Indvik, Chair, WSI Board of Directors

Date 3-4-04

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WORKERS COMP EXEC.

TEL: 701 328 3770

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**WORKFORCE SAFETY & INSURANCE
AMENDMENTS TO INVESTMENT ALLOCATION POLICY**

On March 4, 2004, the Workforce Safety & Insurance Board of Directors, by unanimous ballot, approved the following allocation for its investment portfolio:

Broad Domestic Equity	16%
Small Cap	5.3%
Large Cap	10.7%
International Equity	5%
Real Estate	6%
Domestic Fixed Income	66%
Lehman Aggregate Bonds	22%
Intermediate Bonds	22%
TIPS	22%
Convertible Bonds	6%
Cash Equivalents	1%
	100%

I, on behalf of the Board of Directors, authorize the above amendments to the Workforce Safety & Insurance Investment Guidelines.


Bob Indvik, Chair, WSI Board of Directors

Date 3-11-04